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TO RUEHC/SECSTATE WASHDC 3959
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RUEHBK/AMEMBASSY BANGKOK 3574
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STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH and Stratford
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
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GOVERNORS, SAN FRANCISCO FRB/TCURRAN, NEW YORK FRB/MBOLIS

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SUBJECT: Taipei Economic Brief for January 2007

REF: (A) TAIPEI 0049, (B) TAIPEI 0063, (C) 06 TAIPEI 4175

[1](#)1. This cable summarizes selected January 2007 economic events in Taiwan:

- Economic Performance in 2006;
- Science-based Industrial Parks;
- PRC Tourists to Taiwan's High-Tech Centers;
- Major Investment Projects;
- China Rebar Pacific Group Collapse;
- Problem Banks Taken Over;
- Transfer of 0.18-micron Wafer Feb Technologies to China;
- 2007 Central Budget Fails to Pass Legislature;
- Three More Taiwan Firms Become WEF Members;
- Taiwan to Make Vaccines.

Economic Performance in 2006

[1](#)2. In 2006, exports accounted for 60% of Taiwan's GDP and 75% of Taiwan's economic growth. Exports grew 13% y-o-y to US\$224 billion, while imports increased 11% to US\$202.7 billion. Export expansion drove real GDP growth above four percent and kept unemployment below 4% in 2006. A decline in international petroleum prices kept Taiwan's inflation rate below one percent in 2006.

Science-based Industrial Parks

[1](#)3. Taiwan's National Science Council (NSC) projects that sales from Taiwan's three science-based industrial parks will increase 11% to exceed NT\$2 trillion (US\$61.5 billion) in 2007. There are 776 companies currently operating at these three parks, including 475 at the Hsinchu Science-based Park, 103 at the Central Taiwan Science-based Park, and 198 at Southern Taiwan Science-based Park. Eleven percent of these firms are foreign-invested companies.

PRC Tourists to Taiwan's High-Tech Centers

¶4. Taiwan's science parks have opened their doors to many international tourists and may open soon to PRC tourists as well. The Mainland Affairs Council (MAC) has indicated that it is working on revisions to the regulations for PRC tourists in order to permit them to tour the parks. MAC expects the parks to be incorporated into tours in Hsinchu and Tainan. Groups of Mainland tourists will have to submit applications to visit the parks and will be approved on a case-by-case basis. Taiwan and PRC officials have indicated that they are likely to reach agreement soon to open Taiwan further to Mainland tourists.

Major Investment Projects in 2007

¶5. Economic Minister Steve Chen predicted Taiwan's private investment in 2007 will grow 11.4% to NT\$1.65 trillion (US\$51 billion) and become a driving force behind Taiwan's economic growth this year. Semiconductor and LCD industries are expected to lead in private investment. Powerchip Semiconductor recently announced a joint venture with Japan's Elpida Memory that will invest US\$1.6 billion in 12-inch wafer semiconductor manufacturing facilities in Taichung in 2007. In all, some industry observers expect Taiwan semiconductor firms to invest more than US\$30 billion over the next three to five years building as many as ten new plants in Taiwan.

China Rebar Pacific Group (CRPG) Collapses

¶6. On January 4, 2007, CRPG announced reorganization plans for two
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affiliated companies, China Rebar (CR) and Chia Hsin Food and Synthetic Fiber (CFSF), triggering declines in share prices of all companies affiliated with CRPG. The announcement also prompted a run on Chinese Bank (CB, Zhonghua Yinhang) (ref A) and dumping of commercial paper underwritten by the Great Chinese Bills Finance (GCBF) Company. Authorities have indicted 30 major shareholders and senior executives of CRPG and affiliated companies, and restricted 87 from leaving the island. Financial Supervisory Commission (FSC) Chairman Shih Jun-ji resigned to take responsibility for the scandal, and was replaced at FSC by Council for Economic Planning and Development Chairman Hu Sheng-cheng. Minister Without Portfolio Ho Mei-yueh took over as the new CEPD Chairman.

Problem Banks Taken Over

¶7. In late December 2006 and early January 2007, Taiwan took over three insolvent banks: Taitung Business Bank (TBB) (ref C), Enterprise Bank of Hualien (EBH, Hualien Qiyin), and Chinese Bank (ref A). The Financial Supervisory Commission (FSC) had repeatedly urged these three banks and another four problem banks to improve their financial status on their own ever since Taiwan's legislature in June 2005 denied additional funding for the Financial Reconstruction Fund (FRF, ref B). The run on Chinese Bank prior to its takeover is seen as unlikely to lead to systemic problems as Taiwan's banking community has substantially improved its quality in recent years. The average non-performing loan (NPL) ratio dropped steadily from nearly 12% in March 2002 to 2.1%, the lowest over the past two decades.

Transfer of 0.18-micron Wafer Fab Technologies to China

¶8. Following its December 2006 approval for two Taiwan firms to build two 8-inch wafer semiconductor plants in China, the Ministry of Economic Affairs (MOEA) announced at the end of December 2006 that it will permit transfer of 0.18-micron chip processing technologies to China for use by the investors themselves. The announced permit was based on a December 2004 amendment to the Wassenaar Agreement that removed controls over 0.18-micron semiconductor fab technologies. According to MOEA, Taiwan currently has ten 12-inch wafer semiconductor plants which account for

one-quarter of total 12-inch wafer semiconductor plants in the world.

2007 Central Budget Fails to Pass Legislature

¶9. The Legislative Yuan (LY) failed to enact the central budget proposed for the 2007 fiscal year (January 1 to December 31) prior to the closure of its last session on January 19. The LY also failed to call a special session to review the 2007 budget. Consequently, central authorities will have limited funding without authorization to launch major projects. The LY will not review the budget bill again until its next session in March. The Executive Yuan asserts that a long delay in legislation of the central budget could hurt Taiwan's real GDP growth.

Three More Taiwan Firms Become WEF Members

¶10. The World Economic Forum (WEF), a Geneva-based independent international organization committed to improving the state of the world, offered 25 Taiwan companies opportunities to become WEF members. Taiwan's High Tech Computer (HTC), Chunghwa Telecom, and Chinese Petroleum Corp. (CPC) were recently admitted as members. Their joining the WEF is expected to increase interactions and exchanges between Taiwan and the WEF. HTC Chairman Cher Wang, HTC

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President Chen Wen-chi and Chunghwa Telecom President Lu Hsueh-chin took part in the WEF 2007 annual meeting in Davos, Switzerland January 24-28.

Taiwan to Make Vaccines

¶11. Vaxin, a U.S. biotech company, is negotiating with Taiwan firms for manufacture of its latest products in Taiwan, including intranasal and "stick-on" vaccines. Vaxin, formed in 1997, was the first company in the world to introduce a "stick-on" vaccine which is delivered through the skin. Vaxin will also release a vaccine for avian influenza in 2008. Licensing rights for production of the vaccines in France were sold to Sanofi-aventis, France's largest pharmaceutical company. The licensing rights in South Korea were recently sold to Kolmar, a Korean cosmetics company.

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